MOEC0265:

Microfinance

Syllabus

Fall semester 2016

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Microfinance – financial services designed for poor and low-income clients in developing countries – has entered the mainstream of development finance and financial markets around the world. Much has happened since a few visionary innovators set up the first credit programs and savings banks in the 1970s, stepping into the void left by the banking sector that had deemed the lack of assets and the prevalence of information problems prohibitive for business with poor people. Today, a diversified microfinance industry offers a variety of services to growing numbers of customers. Credit programs have transformed into specialized financial institutions and banks. Commercial banks are downscaling. Mobile phone operators are offering financial services. Funding through aid agencies has been complemented by socially responsible and profit-oriented investors. Financial sector supervisors are dealing with microfinance. Specialized investment funds, rating agencies, training institutes, and credit reference bureaus complement the industry. The best performers show that it is possible to make the financial sectors of countries more inclusive and to combine a profit orientation with social objectives, while various crises hit other institutions and markets. The challenges remain to ensure sustainable investment opportunities and quality services to millions of underserved customers on a large scale, and to balance social and commercial objectives.

This course is designed to increase students’ understanding of the role of microfinance institutions (MFIs) and banks in providing financial services to poor and low-income customers in developing countries. Students learn how the microfinance industry evolved and how it works. They develop an understanding of the skills and techniques used by microfinance analysts, managers, and investors. Students also explore the role of governments and central banks vis-à-vis the microfinance industry, and what are current challenges facing microfinance.

The course consists of four parts:

- **Part I:** Understanding microfinance markets
- **Part II:** Assessing microfinance service providers, in particular microfinance institutions (MFIs)
- **Part III:** Policies to build inclusive financial systems
- **Part IV:** Financing microfinance - trends in commercializing markets

First, students examine characteristics of the demand for financial services in developing countries and analyze the market potential targeting poor and low-income customers in developing countries. They explore why credit market traditionally failed to meet the demand and how microfinance service providers use innovative services and institutional designs to overcome market failures. In the second part, students assess the institutional and managerial soundness, and financial and social performance of institutions through case studies, applying tools used in practice by analysts and microfinance managers.

Part III of the course gives the opportunity to investigate the role of public players in the microfinance industry, in particular central banks and governments. This includes broader financial sector policies and more specifically, microfinance regulation and supervision. Finally, part IV is dedicated to discussing the different financing options for the industry. Students investigate the role of aid agencies, social and commercial investors. Particular emphasis is given to the commercial financing of microfinance.
WHO WOULD BENEFIT FROM THIS COURSE?

This lecture is for students in the Master Program in Banking and Finance, Business, and the English-language Master in Business and Economics. The course is element of:

- M: Wahlbereich OEC
- MA: Wahlpflichtbereich BF
- M: Wahlpflichtbereich Corporate Finance and Banking (BWL2)
- M: Wahlpflichtbereich Banking (BF2)

CREDIT POINTS

The lecture counts for 3 ECTS points.

TEACHING APPROACH AND LANGUAGE

Learning is based on a combination of theoretical considerations to understand financial markets in developing countries and practical experiences from around the world. It introduces the major players in the industry, current data, numerous examples, and short case studies.

The class will be held in English.

PREREQUISITES

Bachelor Degree and knowledge of the course 'Banking’ or related courses of the Bachelor program.

CLASS MATERIALS AND PREPARATION

Each session of the course includes a reading list with a set of assigned readings. Readings include but are not limited to selected parts of the following books:


The most important readings are marked with a star (*). It is recommended that students read these materials before class. The syllabus also includes optional reading marked with an (o). These texts help deepen students’ knowledge and provide additional food for thought on selected topics covered each week. There is a collection of books and readings, including those readings marked with a star (*), in my “Handapparat” at the business library at Plattenstrasse 14 (ground floor).
Please note that reading of these materials does not substitute for attending classroom sessions. The lecture notes (slides and handouts) as well as the readings marked (*) are part of materials tested in the final exam.

ADDITIONAL READING AND WEB SITES

The area of microfinance is a well-documented field. Students are encouraged to access microfinance-related research in scholarly journals such as World Development, World Bank Economic Review, Journal of Development Studies, Journal of International Development, Journal of Banking and Finance but also the wealth of materials made available through a number of specialized institutions and online resources. Some helpful links are:

- The Microfinance Gateway, [www.microfinancegateway.org](http://www.microfinancegateway.org)
- Consultative Group to Assist the Poor (CGAP), [www.cgap.org](http://www.cgap.org)
- The Mix Market, [www.mixmarket.org](http://www.mixmarket.org)
- Microsave, [www.microsave.org](http://www.microsave.org)
- Your SRI, [www.yourSRI.com](http://www.yourSRI.com)

GRADING

Grades will be based on a final exam. Refer to the “Vorlesungsverzeichnis” for the date, time and location of the final exam.
In addition, class participation will be considered in cases where the exam result falls between two grades. Class participation is particularly important in this class, and you are encouraged to frequently ask questions and contribute to discussions.

Enjoy the class!
COURSE OUTLINE AND READING LIST

Part I: Understanding Microfinance Markets

Wednesday 21 September 2016

Introduction and Overview: Supply and Demand for Financial Services at the “Bottom of the Economic Pyramid”

- Definition of microfinance
- Characteristics of microfinance clients
- Understanding the demand for financial services at the BOP
- Evolution of the supply of financial services at the BOP
- Microfinance as a development strategy; microfinance as an industry

Reading:


Case (Handout):

(*) Financial Services in Orinapa Village

Wednesday 28 September 2016

Why Do Poor People Lack Access to Financial Markets?

- Efficiency, market structure, competition and distribution issues
- Agency problems: asymmetric information, adverse selection, and moral hazard
- Limited liability and lack of collateral
- Non-economic factors

Reading:
Wednesday 5 October 2016

Microfinance Contract Innovations to Overcome Financial Market Problems

- Microcredit: Joint liability; dynamic incentives, character and cash-flow based lending; flexible approaches to collateral
- Microsavings: “Mandatory” and “voluntary” savings products
- Non-financial services

Reading:


Part II: Assessing Microfinance Service Providers, in Particular Microfinance Institutions (MFIs)

Wednesday 12 October 2016

Institutional Factors: Governance, Ownership and Legal Form of MFIs

- The importance of institutions
- Introduction to the process and tools of institutional assessments for MFIs
- Types of financial institutions offering microfinance services
- Governance concepts for MFIs
- Strategic decisions in ownership, capital structure, and governance
- Business Planning in MFIs

Reading:


Case (Handouts):

(*) HKL, Part I

Wednesday 19 October 2016

*No class on Wednesday 19 October 2016!*
Wednesday 26 October 2016

The People and Market Factors:
Leadership and Human Resources Management, Managing Products & Services and Risks

- Leadership, performance management, and organizational structures
- Human resources policies, productivity and efficiency
- Managing operational and credit risks
- Market research, outreach and competition
- Institutional and product diversity
- Client protection

Reading:


Case (Handouts):

(*) HKL, Parts II and III

Wednesday 2 November 2016

Financial Factors: Analyzing and Managing Financial Performance of MFIs

- Analyzing financial statements
- Financial performance ratios
- Selected aspects of managing financial performance and risks: efficiency and productivity; liquidity and capital adequacy; asset and liability management
- Benchmarking
Reading:


Case (Handouts):

(*) HKL Part IV

Wednesday 9 November 2016

Financial Factors: Analyzing and Managing Financial Performance of MFIs (continued)

Social Performance Measurement and Impact Assessments

- Why measuring social performance and impact?
- What do we know about the impact of microfinance?
- Methodological aspects of social performance measurements and impact assessments
- Common sets of indicators used in practice
- A closer look at selected tools and studies

Reading:


Reichert, Patrick. 2016. A meta-analysis examining the nature of trade-offs in microfinance, CEB Working Paper N° 16/005, January


**Case (Handouts):**

(*) HKL Part V

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**Part III Policies to Build Inclusive Financial Systems**

**Wednesday 16 November 2016**

**Microfinance Macro and Meso Policy Issues and Choices**

- The relationship between the macro economy and microfinance
- Financial systems levels and microfinance
- The role of governments in microfinance
- Recommendations for national microfinance policies at the macro and meso levels

**Reading:**


**Wednesday 23 November 2016**

**Microfinance Regulation and Supervision**

- Objectives of microfinance regulation and supervision
- Key principles of microfinance regulation
- Key areas of microfinance regulation
- Considerations in implementing regulation and supervision

**Reading:**


**Case (Classroom material):**

(*) Uganda
Part IV: Financing Microfinance - Trends in Commercializing Markets

Wednesday 30 November 2016

The Role of Subsidies and Donors

• Subsidizing microfinance: why or why not, what, and how
• Microfinance subsidy instruments
• Current approaches to subsidizing microfinance at the micro, meso, and macro level
• Approaches to measuring the effects of subsidies
• “Capacity leads, capital follows”: success factors, do’s and don’ts of subsidizing microfinance in practice

Reading:


Case (Handout):

(*) *Capacity Leads, Capital Follows and When There Was No Money: ACLEDA, Cambodia, by Heather Clark (excerpts)*
Wednesday 7 December 2016

Socially Responsible and Commercial Microfinance Investments

- MFI demand for capital and financing strategies
- Socially responsible investors and commercial investors: motivations and investment strategies
- Microfinance investment vehicles and funds
- Microfinance fund analysis

Reading:


(o) CMF. *Investment Brief 2015*. University of Zurich, Center for Microfinance. [online at http://www.cmf.uzh.ch/en/MicrofinanceInvestmentIndex-disclaimer/MicrofinanceInvestmentIndex.html]

Case (Handout):

(*) Microfinance Investment Fund
Wednesday 14 December 2016

Financial Market Instruments for Commercial Microfinance

- Microfinance and impact investment; microfinance investment opportunity set
- Portfolio impact of microfinance investments
- A fund manager’s perspective on the investment process and risk management
- Currency risk management
- Current trends and challenges

Reading:


(o) Oehri, Oliver, Christoph Dreher, and Henry Schäfer. 2010. Microfinance – a new type of investment for socially oriented clients: market, participants and risk aspects. Vaduz: CSSP AG.


Wednesday 21 December 2016

Challenges and Burning Questions

- Students’ questions
- Review session